



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>4/04/01</b>	Bill No:	<b>AB 1228</b>
Tax:	<b>Property</b>	Author:	<b>Leslie</b>
Board Position:	<b>Support</b>	Related Bills:	

### **BILL SUMMARY**

This bill would simplify the reporting, assessing, and allocating of regulated railroad company unitary property by converting to the county-wide system used for all other state assessed property.

### **ANALYSIS**

#### **Current Law**

Under existing law, the unitary property of regulated railroad companies is reported, the value of the property is allocated, and the resulting revenue is distributed according to the “tax rate area” where the property is located. A tax rate area is a specific geographical area within a county wherein each parcel is subject to the taxing powers of the same combination of taxing agencies. Statewide there are nearly 58,000 tax rate areas.

All other state-assessed unitary property is reported, assessed, and allocated to a single countywide tax rate area. Specifically, the Board allocates state-assessed unitary values to a single county-wide tax rate area in each county where the assessee has property. A special county-wide tax rate is applied to the assessed value of this property. Statutory formulas are then used to allocate taxes to the numerous local agencies in the county.

#### **Proposed Law**

This bill would allow railroad companies to report their unitary property holdings by county, rather than by individual tax rate area. It would additionally allow the Board to allocate unitary values by county, rather than by tax rate area. In order to transition from the tax rate area to a county-wide system, it would require the local county auditor to make one-time adjustments to local jurisdictions tax bases to incorporate revenue from railroad unitary property.

### **REVISED COST ESTIMATE**

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### Property Tax Revenue Allocation

**Locally Assessed Property.** Generally, property tax revenues from locally assessed property are allocated by situs of the property and accrue only to the taxing jurisdictions in the tax rate area where the property is located. A tax rate area is a specific geographical area within a county wherein each parcel is subject to the taxing powers of the same combination of taxing agencies.

**State Assessed Property.** Under current law, the allocation procedures for property tax revenues derived from state assessed property are different than those for locally assessed property. The revenue allocation system for state assessed unitary property, with the exception of railroad unitary property, was established by legislation enacted in 1986 via AB 2890 (Stats. 1986, Ch. 1457). Prior to the 1988-89 fiscal year, the property tax revenues from state and locally assessed property were allocated in the same manner – by tax rate area. However, the process of identifying property according to tax rate area had become overwhelming for state assessees. As a result, AB 2890 was enacted to allow state assessees to report their unitary property holdings by county, rather than by individual tax rate area. It also allowed the Board to allocate unitary values by county, rather than by tax rate area. This change allowed state assessees to receive only one tax bill per county. Previously, each state assessee received hundreds of property tax bills from each county where they owned unitary property because a separate tax bill was prepared for each tax rate area where property was physically located.

Essentially, AB 2890 established a prescribed formula, performed by the county auditor. The results of AB 2890 are as follows:

1. Preserves each local agency's tax base (hereafter called the "unitary base") for any jurisdiction which had state assessed property sited within its boundaries in the 1987-88 fiscal year.
2. Thereafter, annually increases each local agency's "unitary base" by two percent (provided revenues are sufficient).
3. If there is any property tax revenue remaining after each local agency has been distributed their "unitary base" plus two percent, then this surplus revenue, referred to as "incremental growth," is distributed to all agencies in the county. Agencies with unitary bases also receive a share of the incremental growth.
4. "Incremental growth" revenues are shared with all jurisdictions in the county (i.e., county-wide distribution) in proportion to the entity's share of property tax revenues derived from locally assessed property.

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5. It is often stated that all state assessee revenue is shared “county-wide,” but this is not technically true. In essence, it is only incremental growth that is distributed “county-wide” without regard to where the growth in value took place or where new construction occurred.

By establishing unitary bases, jurisdictions were held harmless by the allocation system established by AB 2890 and some jurisdictions (those with little or no state assessed property located in their jurisdictional boundaries prior to AB 2890) have since benefited from the county-wide system established for sharing the incremental growth.

## COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Railroad Industry to simplify the administration and distribution of the property tax as it applies to unitary railroad property, consistent with all other state assessed unitary property.
2. **Railroads were not included in the original AB 2890 legislation at the request of that industry.** Since then, railroads have also become overwhelmed with the administrative complexities of reporting unitary property at the micro tax rate area level and would like the benefits of the county-wide system.
3. **This bill would require county auditors to make a one-time adjustment.** Thereafter, the revenue allocation process would be identical to that established by AB 2890 for all other state-assessed property.
4. **This bill would allow railroads to receive only one tax bill per county for their unitary property holdings.** Additionally, counties would only have to prepare and process one tax bill per railroad company on this unitary property.
5. **This bill would require that the Board conduct a one-time review of historical documents.** In order to make the one-time adjustment, counties would need information from the Board which would require the review of documents associated with 1,228 redevelopment districts.
6. **This bill would allow the Board to discontinue value allocation by tax rate area.** This process utilizes approximately 60 hours per year of staff time which would be redirected to accommodate other workloads within the program.

## COST ESTIMATE

In order to provide counties with necessary information to make conversion possible the Board's Tax Rate Area Services program would incur a total one-time cost of \$67,000 which would be incurred as follows: \$34,000 during fiscal year 2001-2002 and \$33,000 during fiscal year 2002-2003.

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**REVENUE ESTIMATE**

This measure has no revenue impact.

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